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PROGRAMME AND BUDGETS, 1998-1999

Programmatic and policy implications of the indicative budget reduction proposals*

Submitted by the Director-General

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Introduction

1. At its sixteenth session, the Industrial Development Board, in its decision IDB.16/Dec.12, requested the Director-General to prepare his programme and budget proposals for the biennium 1998-1999 with a ceiling lower than zero real growth. Subsequently, the Director-General presented his proposals for the future of UNIDO in document IDB/S.7/2 which were derived from the experience and results of the comprehensive ongoing reform process of UNIDO. The Board, at its seventeenth session, adopted decision IDB.17/Dec.2, which, in the context of the Business Plan on the Future Role and Functions of UNIDO, proposed an indicative level of 20 per cent and 10 per cent reduction of the budget for the preparation of the 1998-1999 budget proposals. Furthermore, in response to the discussions at the seventeenth session and with the concurrence of the Board, the President of the Board requested the Secretariat to present a third budgetary proposal, based on an indicative reduction of 30 per cent, with the understanding that it would be considered on an equal basis with the other two submissions (IDB.17/SR.8, para. 10).

2. The Director-General, in complying with the above-mentioned requests from Member States, has submitted three full-fledged budget proposals, based on indicative budget reduction scenarios of 10 per cent, 20 per cent and 30 per cent respectively, on an equal basis, for consideration by the Programme and Budget Committee at its thirteenth session. The elaboration of these three full-fledged budget proposals has taken place under unprecedented time pressure in a period of less than two months—a time normally insufficient even to prepare one budget proposal. The Director-General wishes to express his sincere appreciation for the intense and committed work carried out in the budget preparation process by all staff involved. The entire process was carried out in a highly participatory manner with full involvement of Managing Directors and their senior staff who undertook an in-depth review of present activities against the background of the Business Plan and submitted duly revised work programmes and budget requirements to the Director-General. Based on his own review and overall assessment of these submissions, and following an iterative process of consultations, the Director-General has formulated his consolidated proposals to Member States.

3. The entire submission to Member States consists of the following documents:

- IDB.18/15/1-PBC.13/14/1: Indicative 10 per cent budget reduction;
- IDB.18/15/2-PBC.13/14/2: Indicative 20 per cent budget reduction;
- IDB.18/15/3-PBC.13/14/3: Indicative 30 per cent budget reduction;
- IDB.18/15/4-PBC.13/14/4: Programmatic and policy implications of the indicative budget proposals;
- IDB.18/15/5-PBC.13/14/5: Personnel and financial implications of the indicative budget reduction proposals.

4. The present document summarizes the approach taken in developing the three budgetary scenarios, the main characteristics of each and their key differences, as

well as the programmatic and policy implications of their implementation. Hence, the text partly overlaps with explanations provided in the separate introductions to each budget scenario. The Secretariat considers it useful, however, to present to Member States a consolidated overview document which, within an overall perspective would allow comparisons between the various scenarios, in addition to the more specific comparisons provided in the three budget reduction proposals.

5. The budget proposals submitted to Member States have emerged from an exceptional situation, particularly due to a combination of the following elements:

(a) The extremely limited time available for an appropriate in-depth programmatic and financial analysis;

(b) The request from Member States to prepare three different budget scenarios;

(c) The conceptualization and application, for the first time, of a genuinely programmatic budget approach and format;

(d) The definition, in the Business Plan, of new programmatic priorities and the concomitant discontinuation of a number of activities;

(e) The drastic streamlining of the organizational structure of UNIDO;

(f) The radical shift in the balance of operations between Headquarters and the field resulting from the strong call by Member States for further decentralization;

(g) The restructuring of field operations themselves with a gradual move towards establishing subregional UNIDO offices.

I. UNIDO REFORM

6. The indicative budget reduction proposals and their implications for the programmatic priorities and the resource base of UNIDO should be seen within the context of the comprehensive reform of UNIDO as conceptualized before the fifth session of the General Conference in December 1993 at Yaoundé.

7. Following its endorsement by Member States, the reform of UNIDO was implemented during 1994-1996. It has redefined the Organization's relevance, prioritized and focused its programmes and services, and—through a streamlining of core managerial and administrative processes—achieved significant financial savings. The result has been a leaner, more effective and cost-efficient organization with a better balance of substantive *vis-à-vis* administrative activities. Some of the specific results of the reform include:

(a) A clear focus on a limited number of industrial subsectors and on newly defined thematic priorities;

(b) The discontinuation of a number of low priority programmes and activities;

(c) The introduction of a thorough screening mechanism that has resulted in rejection of service requests that are not in line with UNIDO priorities or cannot be implemented due to a lack of expertise or limited funding potential;

(d) An increased emphasis on working with private sector counterparts and on a dialogue with private industry, *inter alia*, through a newly-created International Business Advisory Council;

(e) A downsizing of staff by 36 per cent between the end of 1993 and the end of 1996;

(f) A reduction in the ratio of General Service-level staff to Professional-level staff from 1.4:1 in 1995 to 1.2:1 in 1997;

(g) Improved personnel policies, including increased delegation of authority to line managers, a new promotion system and a new approach to staff performance evaluation;

(h) An effective budget reduction of 25 per cent between 1995 and 1997, three quarters of which was implemented in non-technical areas, thus preserving the basic delivery capacities of UNIDO;

(i) Significantly increased approval levels of technical cooperation and higher productivity of staff in terms of per capita levels of delivery and approvals.

II. UNITED NATIONS REFORM PROPOSALS BY THE SECRETARY-GENERAL

8. In July 1997, the Secretary-General presented to the General Assembly a document (A/51/950: Renewing the United Nations: A Programme for Reform) in which he outlines his reform proposals for the work and functioning of the United Nations system. These proposals have a number of important implications for UNIDO.

9. First, they emphasize the need to ensure a unified field representation of all United Nations organizations with a view to achieving goal-oriented collaboration,

programmatic coherence and synergies as well as mutual reinforcement through a single United Nations Development Assistance Framework and common premises. In this context, UNIDO will carefully follow evolving developments and will have to ensure the required degree of flexibility in its own field representation to be able to respond adequately and effectively.

10. Second, the Secretary-General envisages a possible broadening of the mandate of a restructured and revitalized UNIDO in view of gaps in the present United Nations system coverage of issues such as energy, technology, and the major transition from State to private enterprises (A/51/950, para. 88). The Director-General welcomes these ideas and expects their further discussion and analysis in the context of the Special Commission, at the ministerial level, proposed by the Secretary-General as well as, eventually, at the level of the policy-making organs of UNIDO. While these proposals provide a long-term perspective for the determination of the future mandate of UNIDO, the programme and budget proposals submitted to Member States have taken, however, only the Business Plan as adopted by the Board as the relevant policy document and translated the role and functions defined therein into more specific programmes and activities for the next biennium.

III. NEW PROGRAMMATIC APPROACH

11. For the first time, the programme and budget proposals, 1998-1999, are based on a genuinely programmatic concept and approach. This involves a radical departure from past practice when, with few exceptions, the Major Programmes, Programmes and Subprogrammes were identical with corresponding organizational units. Thus, the past emphasis was on the activities of individual units located in different parts of the Organization, with insufficient attention given to their interaction and complementarities. The newly adopted format is based on programmatic and integrated sets of activities. It presents, both in substantive and support areas, those activities and outputs which will enable UNIDO to achieve specific objectives, and quantifies the resources required for this purpose in each case. These resources, in many instances, involve different organizational units making distinct contributions to common programmatic objectives. Thus, complementarities and synergies are clearly emphasized. In implementing the various programmes, effective teamwork within UNIDO is not only desirable, but constitutes a basic necessity. Below, the new programmatic budget format and contents are explained in greater detail.

12. The two main substantive Programmes are derived directly from the Business Plan: Major Programme C (Strengthening of Industrial Capacities) and Major Programme D (Cleaner and Sustainable Industrial Development). Both Major Programmes are composed of a limited number of Programmes and Subprogrammes reflecting the more specific areas of expertise and related activities of UNIDO as contained in the Business Plan.

Major Programme C: Strengthening of Industrial Capacities

13. This Major Programme provides the overarching framework for clustering the following five substantive Programmes:

(a) **Programme C.1 (Industrial Investment, Technology and Information)** pulls together the expertise of UNIDO to support enhanced flows of industrial investment and technology to developing countries and countries with economies in transition, to strengthen required policy and institutional capacities, to promote technological capabilities as a precondition for effective absorption of foreign investment inflows, and to facilitate access to information sources on industrial technologies and investment opportunities.

(b) **Programme C.2 (Industrial Policies and Strategies)** carries out the global forum function of UNIDO through support to the formulation and implementation of industrial policies and strategies. In its first Subprogramme C.2.1 (Industrial Analysis and Policy Advice), the Programme integrates the research capacity of UNIDO with policy advisory and technical cooperation services thus ensuring that, as mandated by the Business Plan, research and industrial studies are clearly target-oriented. Likewise, Subprogramme C.2.2 (Industrial Statistics), while exercising a general normative global forum function, reflects the strong links between reliable industrial statistics on the one hand and effective industrial policy formulation on the other hand.

(c) **Programme C.3 (Institutional Capacity-building)** carries out the global forum function of UNIDO through support to the creation of a conducive environment for the development of a competitive private sector-driven industrial development based on small and medium industries and enhanced capacities in the field of quality, standardization and metrology. The second Subprogramme C.3.2 (Quality, Standardization and Metrology) reflects the emphasis given to this area in the Business Plan and the increased demand for related services from UNIDO in view of their growing importance for achieving international industrial competitiveness.

(d) **Programme C.4 (Integrated Agro-industry Development)** addresses one of the main thrusts of the Business Plan, i.e. the prioritization of agro-industries and their integration into national industrial structures. It

combines the coverage of agro-industries proper with support to a range of agro-support industries, such as agricultural machinery, agro-chemicals, biotechnological inputs for agriculture, and packaging technologies. It thus captures, for the first time, the comprehensive contribution of UNIDO to integrated agro-industry development with a critically important impact on employment creation and poverty alleviation. The focus of this Programme is on African and least developed countries.

(e) **Programme C.5 (Other Sectoral Capacity-building)** is a further response to the call in the Business Plan for UNIDO to support institutional capacity-building at the country and sectoral level. The Programme, with a relatively small resource allocation, carries out selected activities to strengthen process improvement capacities in chemical and engineering industries.

Major Programme D: Cleaner and Sustainable Industrial Development

14. This Major Programme provides the overarching framework for all activities of UNIDO aimed at promoting environmentally sustainable industrial development and, in specifying the activities mandated in the second substantive cluster of the Business Plan, comprises three Programmes:

(a) **Programme D.1 (Cleaner Production)** combines those Subprogrammes aimed at building sector-wide capacities in developing countries and countries with economies in transition to reduce the pollution-intensity of industry through environmentally sustainable industrial development strategies and policy incentives favouring the use of environmentally sound technologies, supporting the adoption of appropriate environmental management standards, and providing institutional support to small and medium industries, primarily through National Cleaner Production Centres, in implementing cleaner production techniques and technologies.

(b) **Programme D.2 (Applied Environmental Technologies)** has a focus on the application of specific environmental technologies related to industrial water management, industrial and hazardous waste management, natural resource management (including the high-impact programme on mitigating the effects of global mercury pollution), environmental monitoring and control technologies, and the important issue of chemical safety.

(c) **Programme D.3 (International Environmental Agreements)** reflects the mandate given to UNIDO by the Business Plan, to support the implementation of international protocols, agreements and conventions in the field of environment. The Programme shows for the first time, in an integrated manner, the thrust of UNIDO activities in exercising this function and specifies planned activities under the Montreal Protocol on Substances that Deplete the Ozone Layer, the United Nations Framework Convention on Climate Change, and the Global Environment Facility.

Other Major Programmes

15. In addition to the two substantive Major Programmes described above, the new programmatic structure comprises the following five Major Programmes:

(a) **Major Programme A (Policy-making Organs)**: This Major Programme includes the meetings of the policy-making organs of UNIDO and the Secretariat's support functions in preparing and supporting those meetings as well as related protocol activities.

(b) **Major Programme B (General Management)**: This Major Programme comprises the key programmes providing strategic guidance and control to the Organization so as to ensure efficient operational and financial management. It advises the Director-General on legal and internal audit matters, maintains coordination with Governments and within the United Nations system, and exercises the public relations and information function of UNIDO.

(c) **Major Programme E (Regional Programme Management)**: This Major Programme groups the activities of UNIDO in support of programming, developing and coordinating UNIDO services within the various developing regions. Within each region, it distinguishes between Headquarters activities and those carried out in a decentralized manner in the subregional and country offices of UNIDO. The Major Programme directly impacts on the substantive activities of UNIDO (as defined under Major Programmes C and D) and ensures their effective and integrated implementation at the regional and country levels.

(d) **Major Programme F (Technical Cooperation Management)**: This Major Programme, in an innovative approach, clusters all activities related to an effective and cost-efficient project cycle management of the technical cooperation activities of UNIDO, including quality assurance, funds mobilization (supplementing country and regional level funds mobilization by UNIDO field offices), programme and project approval, monitoring, evaluation and operational support such as project personnel, and purchase and contracts. It thus exercises a critical support function for the substantive activities of UNIDO.

(e) **Major Programme G (Administration)**: This Major Programme provides for financial, personnel and general services, including management information and buildings management (as a joint responsibility for all Vienna-based United Nations organizations) to ensure responsible and cost-efficient administration for all programmes of the Organization.

16. The Secretariat reiterates that the new programmatic structure does not equate with the organizational structure of UNIDO in a number of important instances. The following examples illustrate this point:

(a) The Programmes on Integrated Agro-industry Development (C.4) and Other Sectoral Capacity-building (C.5) which focus on the strengthening of industrial capacities and are not primarily addressing environmental issues, are grouped under Major Programme C, while in the organizational structure the sector-specific expertise of UNIDO will be located in the substantive Division for Sectoral Support and Environmental Sustainability. It would clearly not be advisable to split up the sector-specific expertise into different organizational units as this would imply the loss of significant synergies.

The programmatic structure is thus based on programme contributions to achieving overall objectives while the organizational structure follows the principle of combining homogeneous types of expertise.

(b) Similarly, the programmatic structure includes a Subprogramme on Montreal Protocol (D.3.1) while the contributions in implementing this Subprogramme will come from different sector-specific organizational units of UNIDO.

(c) The Major Programme on Technical Cooperation Management (F) groups all activities concerned with developing, screening, approving, implementing and evaluating technical cooperation programmes and projects while the organizational units concerned will be found in different parts of UNIDO, both in General Management and in Administration.

IV. DIFFERENT BUDGET SCENARIOS

17. The Director-General has been requested to prepare three budget proposals based on indicative budget reductions of 10 per cent, 20 per cent and 30 per cent, respectively. The approach taken in elaborating these scenarios and their financial and substantive implications are presented in table 1 below, which summarizes the corresponding overall resource levels.

Budget reduction by 10 per cent

18. The 10 per cent scenario, *inter alia*, reflects the budgetary implications of the discontinuation of certain activities as specified in the Business Plan. In some of these cases the Business Plan establishes general criteria for the reorientation of activities without quantifiable budget reduction impact. In other cases, in particular with regard to human resource development, sectoral coverage and activities related to privatization, the budgetary impact has been significant. The budget reductions, including staff costs and non-staff costs, resulting from

Table 1

Regular budget reductions

(In thousands of US dollars at US$ 1 = AS 12.90 at 1996-1997 rates)

A.	Approved budget (net) for 1996-1997	180,899.5
B.	Reductions achieved in the contingency plan during 1996-1997	(24,538.8)
C.	Base for 1998-1999 budget	156,360.7
D.	10 per cent reduction Reductions achieved Budget level (net)	 (15,816.6) 140,544.1
E.	20 per cent reduction Further reductions achieved Budget level (net)	 (15,459.2) 125,084.9
F.	30 per cent reduction Further reductions achieved Budget level (net)	 (15,686.8) 109,398.1

the discontinuation of such activities amount to approximately $5.1 million.

19. Under the 10 per cent scenario, the Secretariat has undertaken great efforts to maximize potential savings from both a streamlined organizational structure and further efficiency-enhancing measures in the areas of administration and general management. Specifically, in accordance with the organizational structure proposed in the Business Plan, three posts of Managing Directors (together with support staff and office costs) have been excluded; a number of organizational units have been merged with a view to achieving greater synergies; the present coordination units for the integration of women, least developed countries and ECDC/TCDC have been reduced to focal points; and non-staff costs in areas such as travel, consultants, expert group meetings and general operating costs have been further reduced. Specifically, travel resources have been reduced by 28 per cent, resources for consultants by 24 per cent, and resources for expert group meetings by 37 per cent. Furthermore, both in various areas of administration and of general management, further post reductions have been effected. The combined effect of these measures has resulted in a budget reduction of 8.2 per cent which thus exceeds the earlier estimate of approximately 5 per cent provided in the Director-General's document on the Future of UNIDO (IDB/S.7/2, para. 46).

20. The total budgetary impact of discontinued activities, organizational streamlining and efficiency-enhancing measures is well in excess of 10 per cent (11.5 per cent), which has allowed the redeployment of resources into substantive priority areas, as requested by many Member States, in the amount of $2.2 million.

21. Thus, under the 10 per cent scenario, the impact on substantive programmes would be largely confined to the discontinuation of certain activities in accordance with the Business Plan while the brunt of the budget reductions would be borne by non-substantive programmes. It has to be pointed out, however, that after the drastic reductions already effected during earlier stages of the reform process in the areas of administration and general management, the quality, effectiveness and efficiency of services in these crucial support functions is bound to suffer.

22. In accordance with the call in the Business Plan for a stronger decentralization to the field, the 10 per cent scenario includes a significant redeployment of posts and resources from Headquarters to the field. At present, UNIDO operates approximately 40 country offices in the various developing regions. Approximately 35 per cent of the cost of maintaining the UNIDO field presence in 1996-1997 was funded from sectoral support funds by UNDP. The provision of this source of funding will discontinue at the end of 1997. The overall resources available for UNIDO field representation have thus, been substantially reduced. With a view to ensuring an effective field representation, the 10 per cent scenario includes the redeployment of a substantial number of Professional posts to field offices while maintaining only small regional bureaux at Headquarters. These enhanced resource allocations to the field would permit the funding and operation of 10 subregional offices and 14 country offices from the regular and operational budgets.

Budget reduction by 20 per cent

23. Under the 20 per cent scenario, the maximum level of possible additional reductions has been attained in the areas of administration and general management. The Secretariat has proposed these further cuts with a view to maintaining the overall share of resources allocated to administrative and managerial support functions at an acceptable level. However, the Secretariat wishes to stress that as a result of these cuts, many crucially important support functions will no longer command the minimum levels of staff required to ensure a smooth financial and operational management of UNIDO. Clearly, the reductions in these areas under the 20 per cent scenario run a great risk of rendering some of the Organization's vital support functions ineffective. This also involves critical planning and oversight functions such as strategic planning and internal audit.

24. The main further implications under the 20 per cent scenario are summarized below:

(a) A reduced field representation with only 10 subregional and 10 country offices. This reduced coverage—implying a loss of four country offices (two in Africa, one in Asia and the Pacific, and one in Latin America and the Caribbean) compared to the 10 per cent scenario—would seriously constrain the UNIDO presence in the field; reduce the Organization's capacity to respond, in direct interaction with country-level counterparts, to the demand for its services; and limit its collaboration with other United Nations agencies. It would thus run counter to the renewed emphasis, as also contained in the Secretary-General's reform proposals, on enhanced United Nations system cooperation and unified field presence;

(b) Reduced resource levels in most substantive programmes. This will lead to significant cuts in the volume of services UNIDO will be capable of rendering to developing countries and countries with economies in transition. Clearly, under this scenario an increasing number of requests for assistance will have to be turned down, even in areas of high demand, and delivery of

technical cooperation in certain regions and countries will suffer;

(c) Discontinuation of selected activities that would otherwise be carried out under the 10 per cent scenario. This involves in particular:

(i) **Subprogramme C.1.1 (Investment Promotion and Technology Transfer)**: Activities related to the establishment of new Investment Promotion Service (IPS) offices, the targeted promotion of investment and technology flows among developing countries and between developing countries and countries with economies in transition, and the upgrading of methodological tools for investment project appraisal. As a result of these cuts, the expansion of the UNIDO investment promotion network in line with requests from a number of Member States would not be possible and the overall development impact of the Subprogramme would be significantly reduced. This would particularly affect those developing countries which hitherto have not been part of the IPS network of UNIDO and thus reduce future possibilities of promoting beneficial investment flows to these countries;

(ii) **Subprogramme C.1.2 (Technological Capacity-building)**: Activities related to the creation of new UNIDO global technology centres. This would imply that UNIDO would have to confine itself to operating the already existing global technology centres. The requests received from Member States to establish new centres, most of which are in an advanced stage of preparation based on detailed feasibility studies, could no longer be pursued. Specifically, this applies to the following centres: International Centre for Hydrogen Energy Technology (ICHET) in Turkey, International Centre for Materials Evaluation Technology (ICMET) in the Republic of Korea, International Centre for Advancement in Manufacturing Technology (ICAMT) in India, International Materials Assessment and Application Centre (IMACC) in Brazil, and the Mediterranean Centre for Marine Industrial Technologies in Greece;

(iii) **Subprogramme C.1.3 (Industrial Information and Networking)**: Activities related to information support to other UNIDO programmes (such as to the National Cleaner Production Centres), the International Referral System on specialized information sources, and information on global human resource development opportunities in the field of industrial development;

(iv) **Subprogramme C.2.1 (Industrial Analysis and Policy Advice)**: Activities related to the social implications of industrial restructuring processes, and to ad hoc requests from policy-making organs. This would be to the detriment of many countries involved in the transition from centrally planned to market economies. Also, it would no longer allow UNIDO to follow up effectively on the recommendations of important global conferences, such as the World Summit for Social Development, the World Conference on Women, and the forthcoming Copenhagen Conference on Social Responsibility of Enterprises, and would weaken the capacity of UNIDO to develop concepts and programmes for the integration of women in industrial development;

(v) **Subprogramme C.2.2 (Industrial Statistics)**: Activities related to special publications (Africa in Figures, ASEAN in Figures, Inventory of Industrial Statistics) and to developing indicators of sustainable development and indicators of industrial competitiveness. This would in particular have repercussions also on Subprogramme C.2.2, which needs to rely on statistical support in developing indicators for comparative assessments of industrial development and performance. It would clearly weaken a central element of the global forum function of UNIDO;

(vi) **Subprogramme C.3.1 (Small and Medium Industry and Private Sector Development)**: Activities related to urban industrial development in follow-up of HABITAT II, and activities specifically addressing rural poverty issues through promoting rural micro- and small industries. The latter would negatively affect the capacity of UNIDO to contribute to poverty alleviation, above all in least developed countries;

(vii) **Subprogramme C.5.1 (Chemical Industries)**: Activities related to essential drug and immunization programmes in

cooperation with WHO and other organizations thus limiting the important contribution of UNIDO to inter-agency co-operation in these areas;

(viii) **Subprogramme C.5.2 (Engineering Industries)**: Activities related to assisting engineering industries in restructuring, and applying computerized maintenance systems and management information systems. This would have a negative impact particularly on more advanced developing countries which need to build up information-based production processes to meet international competition.

Budget reduction by 30 per cent

25. The Secretariat has devoted a great deal of analysis to the potential implications of a 30 per cent scenario. First and foremost, under such a scenario there would be no further scope for budget reductions in the areas of administration and general management as these would have been fully exhausted already under the 20 per cent scenario. There are critical minimum levels of capacity and related resources in areas such as legal services, internal audit, strategic planning, quality assurance and evaluation, support to meetings of policy-making organs, financial services, personnel services, and others which, if not observed, would compromise legal and mandatory commitments of UNIDO.

26. Therefore, further budget reduction under this scenario would fully impact on either the field representation of UNIDO or the substantive programmes or any combination of the two. Before elaborating the specific proposal as presented below, the Secretariat has considered three further options, which however have been found to be invalid:

(a) A complete elimination of the field representation of UNIDO. This option has been rejected as it would imply cutting UNIDO completely off from its counterparts in the field and from interaction with other United Nations organizations at the field level;

(b) Across-the-board reductions in all substantive programmes. This option has been rejected as it would reduce the delivery capacity in the substantive programmes below critical minimum mass requirements (for further elaboration on the concept of critical mass, see paras. 31 to 51 below);

(c) An elimination of entire areas of substantive programmes, such as investment promotion, industrial policy advice, support to international environmental agreements or others. This option has been rejected by the Secretariat as it would not be in accordance with the full range of priority activities as identified in the Business Plan.

27. In light of the above considerations, the Director-General presents the following proposal under the 30 per cent scenario:

(a) A drastic reduction in field representation to only a very limited number of five subregional offices (two in Africa, one in Asia and the Pacific, one in Latin America and the Caribbean, and one in the Arab region) while no country offices can be maintained under this scenario. Travel resources would be increased to the Regional Bureaux at Headquarters to provide the minimum means for a flexible country coverage through staff missions. However, it would be difficult to maintain relevance and focus at the country level, monitor and respond to emerging demand, and cooperate effectively with other United Nations organizations within such a skeleton field representation;

(b) A reduction of Subprogramme C.1.1 (Investment Promotion and Technology Transfer) and Subprogramme C.1.2 (Technological Capacity-building) by 30 per cent, as compared with the 20 per cent scenario. This would allow only the continuation of technology transfer activities directly linked with investment promotion and would reduce the delivery capacity of investment services itself significantly. Many targeted investment promotion forums could no longer be pursued and important technical cooperation activities aimed at strengthening national capacities in technology policy and technology promotion systems would need to be reduced. Also, UNIDO would no longer be in a position to maintain its present global technology centres, the activities of which would need to be phased out;

(c) An elimination of Subprogramme D.2.4 (Environmental Monitoring and Control). This would imply the discontinuation of activities which, with relatively small resources, are complementary to other environmental work carried out by UNIDO. Environmental monitoring and control technologies are applied in various industrial subsectors and processes to reduce direct pollution discharges from industry as well as different types of ambient pollution;

(d) An elimination of Subprogramme D.2.5 (Chemical Safety). This would imply the discontinuation of the important work of UNIDO in promoting preventive technologies for chemical safety, such as the work undertaken in the Regional Network on Pesticides for Asia and the Pacific;

(e) A reduction of Subprogramme C.2.2 (Industrial Statistics) by 30 per cent, as compared with the 20 per cent scenario. This would limit the statistical services of UNIDO to the mandated normative function of collecting, processing and disseminating industrial statistics for non-OECD countries. Technical cooperation activities in support of strengthening national statistical capacities—for which an increasing demand has been noticed, in particular in least developed countries and countries with economies in transition—as well as statistical publications for use by industrial decision makers would have to be discontinued;

(f) Elimination of the three separate substantive coordination functions addressing the integration of women, least developed countries, and ECDC/TCDC. These functions would thus lose their special identity and focus and would have to be undertaken by other staff in addition to their regular assignments;

(g) A further reduction of IDDA supplementary resources by 10 per cent. (Under the 20 per cent scenario, cuts in these resources were limited to 7.5 per cent.) The further cuts will imply reduced services for African countries, in particular least developed countries in the region.

Synopsis of resource allocations

28. Table 2 below summarizes the resource allocations to the two substantive clusters of activities identified in the Business Plan and to the area of policy direction and administration for each of the three scenarios discussed above.

29. Within the framework of the new programmatic approach, the table shows that the overall resources allocated to Strengthening of Industrial Capacities account for approximately one half of the total regular and operational budget resources, both in the 10 per cent scenario and in the 20 per cent scenario. In both scenarios, almost one fifth of regular and operational budget resources is absorbed by Cleaner and Sustainable Industrial Development, which puts the share of both substantive clusters at almost 70 per cent. Accordingly, in both scenarios, the share accounted for by Policy Direction and Administration is less than one third, and that of Administration alone is 15.7 per cent in the 10 per cent scenario and 16.0 per cent in the 20 per cent scenario.

30. The picture changes significantly in the 30 per cent scenario. In this case, the share of the two substantive clusters is reduced to 63 per cent while that of Administration would increase to 18 per cent and that of Policy Direction and Administration to 37 per cent of total regular and operational budget resources.

V. CRITICAL MASS CONSIDERATIONS

31. In elaborating the different budget reduction proposals, the need to maintain a critical mass of staff and other resources to ensure effectiveness and development impact was a paramount consideration for the Secretariat.

32. The need for UNIDO to achieve critical mass to be able to carry out its mandate successfully was first emphasized in the November 1992 Danish Evaluation Report entitled "A Future UNIDO". While the introduction of the critical mass concept provided a useful conceptual tool, there was little guidance given in the report on how to operationalize, let alone quantify this concept. Also, to the knowledge of the Secretariat, no generally applicable approach to quantify critical mass has been developed elsewhere.

33. Critical mass can be defined as the number both of qualified Professional-level and General Service-level staff with the requisite combination of skills, experience and aptitudes needed to effectively carry out and maintain the core functions and activities of UNIDO with an adequate delivery capacity to ensure sustainable developmental impact. The concept of critical mass must also consider the future development of the core functions and activities of UNIDO.

34. In essence, critical mass depends on a combination of:

- The types of skills and the relevant experience required by individual staff;
- The interaction of different skills required for effective teamwork;
- The mobilization of networks of experts and consultants;
- Demand considerations—that is, the volume of services requested and delivered.

35. Critical mass is therefore closely linked with the existing and potential comparative advantages of UNIDO, above all the capacity to provide integrated packages of services, as stressed in the May 1997 Danish Assessment of UNIDO. This means UNIDO must concentrate its resources in its areas of comparative advantage in order to achieve critical mass and "make a difference". Critical mass can thus only be meaningfully defined at the level of the entire Organization to be able to offer an integrated array of services from policy to technical advisory services. It has to take into account that outputs are usually delivered by more than one organizational unit

Table 2

PROGRAMME AND BUDGETS, 1998-1999

Resource allocations by major area of activity

(In thousands of US dollars at US$ 1 = AS 12.90, at 1996-1997 rates)

	BUDGET SCENARIOS					
	10%		20%		30%	
	$	%	$	%	$	%
Strengthening of Industrial Capacities						
Programmes	54,816.3	32.7	47,102.0	31.3	42,166.1	31.8
Regional Programme Management	20,243.8	12.1	17,921.1	11.9	9,979.7	7.5
Technical Cooperation Management	7,955.4	4.7	6,731.4	4.5	6,164.7	4.6
SUBTOTAL	83,015.5	49.5	71,754.5	47.7	58,310.5	43.9
Cleaner and Sustainable Industrial Development						
Programmes	18,559.4	11.1	17,579.0	11.7	16,421.1	12.4
Regional Programme Management	6,854.1	4.1	6,688.3	4.4	3,886.5	2.9
Technical Cooperation Management	5,370.6	3.2	5,258.7	3.5	5,179.7	3.9
SUBTOTAL	30,784.1	18.4	29,526.0	19.6	25,487.3	19.2
Policy Direction and Administration						
Policy-making Organs	7,365.9	4.4	6,898.2	4.6	6,898.2	5.2
General Management	12,539.5	7.5	11,126.7	7.4	11,126.7	8.4
Administration	26,256.8	15.7	24,120.6	16.0	23,729.0	18.0
VIC Buildings Management	7,739.0	4.6	7,127.9	4.7	7,127.9	5.4
SUBTOTAL	53,901.2	32.1	49,273.4	32.7	48,881.8	37.0
TOTAL	167,700.8	100	150,553.9	100	132,689.6	100

through inter-divisional teams. This requirement renders the operationalization of critical mass more complex, in terms of arriving at the exact number of staff needed to carry out core tasks.

36. Finally, critical mass cannot be a static concept if UNIDO is to be flexible in meeting the changing demands of its clients in a rapidly changing global development context. This also requires that UNIDO maintain a presence close to client needs in the field, which adds another important dimension to the concept. In addition, it implies that skill development is a vital ingredient of critical mass to ensure up-to-date skills, relevant experience, and continuity by upgrading the Organization's skill base, as skill requirements change or staff members retire.

Skills required for the core functions of UNIDO

37. While UNIDO gives added emphasis in its activities on African countries and LDCs, the Organization's mandate is based on the principle of universality—that is, to respond to the industrial development needs and support requirements of all Member States with developing or transition economies. This principle of universality calls for the following additional skills and requirements in determining critical mass:

- Up-to-date global, regional and country knowledge;
- Effective field coverage through UNIDO subregional and country offices;
- Language skills in all official United Nations languages;
- Skills to address general global forum and normative functions.

38. Furthermore, in addition to more technical skills, staff skills are needed for effective multidisciplinary teamwork and for the various phases of programme and project cycle management, such as design, funds mobilization, monitoring and evaluation. Also, UNIDO faces the challenge of ensuring continuity of quality services in a number of technical areas where senior staff are due to retire shortly. Finally, the frequent project-related travel commitments of Professional-level staff require General Service-level staff capable of carrying out project administration functions rather than routine clerical work. The latter also implies that the ratio of General Service-level to Professional-level staff cannot be reduced beyond certain limits.

Demand and delivery capacity: A growing gap

39. The importance of critical mass considerations in the context of the proposed budget scenarios is shown vividly when a comparison is made between the growing demand and approval for the services of UNIDO on the one hand, and the actual delivery capacity on the other hand (see figure below).

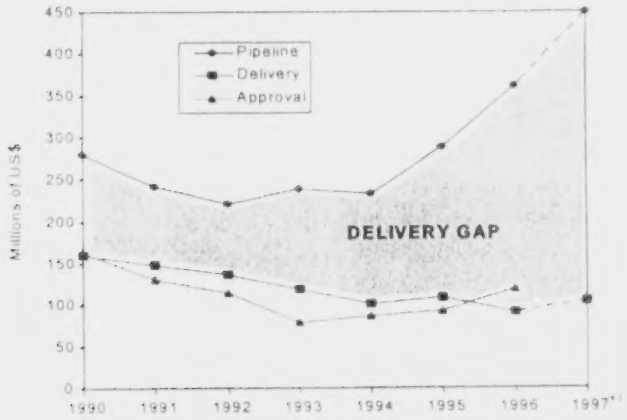
40. The accumulated project pipeline is a proxy for the demand for UNIDO services by Member States. Net approvals—new approvals and project revisions—signify effective demand backed by funding. The data clearly show that since 1990—and particularly since 1993, when UNIDO reforms began—the effective demand for the services of UNIDO has been increasing sharply, especially between 1995 and 1996. Effective demand, as measured by net approvals, has increased by nearly 50 per cent between 1993 and 1996 and by 28 per cent between 1995 and 1996 alone. This is a clear reflection of the renewed support by Member States for the new priorities, focus and thus relevance of UNIDO as a result of the reform process.

41. Staff productivity, as measured by project delivery per staff member, has also increased, by 22 per cent, between 1993 and 1996 through improved procedures, increased use of information technologies and the focusing of resources on areas of impact.

42. However, the data also show an increasing delivery gap measured by the ratio of delivery to the accumulated pipeline, especially since 1993. For example, in 1992, this ratio stood at 61 per cent. In 1996, it had fallen to only 25 per cent. The July 1997 pipeline data show a further upsurge in the accumulated pipeline which will lead to a further widening of the delivery gap in the near future despite the expected increase in delivery which is estimated to reach approximately $100 million in 1997. These figures illustrate dramatically that, while there is an increasing demand for the services of the reformed UNIDO, and although staff productivity has significantly increased, the capacity of UNIDO to satisfy demand has suffered as a result of recent staff reductions.

43. In this context, the Director-General reiterates his earlier proposal (as contained in document IDB/S.7/2, chapter F) to develop stable sources of income for UNIDO, *inter alia* through increased flexibility in the financial rules and regulations, the development of innovative approaches towards mobilization of extrabudgetary resources, and the identification of UNIDO services that could be made available against payment of fees or reimbursement of full costs.

UNIDO Technical Cooperation
Pipeline, Approval and Delivery 1990-1996 (in millions of US$)



*) Estimates based on July 1997 figures

	Accum. Pipeline	Net Approvals	Delivery	Share of Delivery/Pipeline
1990	280	162	160	57%
1991	241	130	147	61%
1992	222	114	136	61%
1993	240	79	119	50%
1994	233	86	101	43%
1995	289	92	109	38%
1996	362	118	91	25%

Illustrative examples

44. The following illustrative examples anchor the concept of critical mass in the context of specific Programmes and Subprogrammes in the programme and budgets, 1998-1999.

Investment Promotion and Technology Transfer (Subprogramme C.1.1)

45. Investment promotion and technology transfer has been identified as a major priority for UNIDO in the Business Plan and as such is a core Subprogramme in the programme and budgets. It requires, in particular, highly developed skills in the identification, formulation, appraisal and actual promotion of investment projects; networking and information dissemination skills; knowledge of differing country and regional requirements for investment and technology—especially for African countries and LDCs; knowledge of key sources of investment and relevant technology, as well as private sector development needs.

46. The Subprogramme is global in coverage. Language skills in all the major United Nations languages and advisory and training skills are critical additional requirements. The Subprogramme has an emphasis on small and medium industries, thus adding special requirements in supporting such enterprises. Under the 10 per cent scenario, 22.7 Professional-level staff constitute a critical mass which is barely sufficient to meet the fast-growing demand for UNIDO services in this area. Under the 20 per cent scenario, a reduction to 20.7 Professional-level staff would already imply a loss of that critical mass while, under the 30 per cent scenario, the Subprogramme, with only 15.7 Professional-level staff, would clearly lose its effectiveness and impact.

Agro-industries (Subprogramme C.4.1)

47. Agro-industries are another priority in the Business Plan and constitute a core UNIDO Subprogramme. The technical skills required are sector-specific, covering a wide range of technologies and production processes, *inter alia* in the food, leather, textiles and wood subsectors. Besides technical skills, staff must be able to develop and manage projects as well as provide significant inputs in obtaining funding and working with other core UNIDO teams, especially those covering African and LDC development issues. The Subprogramme is universal in coverage with language skills required in all United Nations languages. 10.4 Professional-level posts constitute the critical mass under the 10 per cent scenario. Given the importance of agro-industries in industrial development, particularly of poorer countries and the strong demand for UNIDO services in this area, this figure represents a bare minimum. There are, therefore, no further reductions envisaged in this Subprogramme by the Secretariat under the 20 per cent and 30 per cent scenarios.

Field Representation

48. The Business Plan calls for a significant decentralization of UNIDO activities to the field and increased field presence. The UNIDO field representation programme attempts to respond to this call. An adequate field presence is essential to monitor country and regional level developments, to be swift in response to the identified demands of Member States, as well as to develop coherent and integrated programmes and support measures in cooperation with other United Nations and international agencies. The Programme, by its very nature, has to ensure proper coverage of all developing regions.

49. Under the 10 per cent scenario, 24 field offices (comprised of 10 subregional and 14 country offices) are proposed. Under the 20 per cent scenario, only 20 field offices (10 subregional and 10 country offices) could be maintained. In the 30 per cent scenario, only five sub-regional offices can be envisaged. No country offices are foreseen in this scenario. Implementation of this scenario would cripple the field presence of UNIDO and seriously undermine the Organization's relevance and viability. It would be hard for UNIDO to maintain a country focus, identify client needs or respond in an expeditious manner. This would compromise the attempt by UNIDO to harmonize its activities and field presence within the new framework proposed by the Secretary-General for a unified United Nations presence at the country level and a coherent United Nations Development Assistance Framework.

Quality Assurance and Evaluation (Programme F.2)

50. The need to maintain and improve the quality and effectiveness of UNIDO programmes and projects is vital for the Organization's success. The UNIDO quality assurance and evaluation programme is therefore a critical support function. The Programme ensures the relevance, sustainability and development impact of UNIDO technical cooperation programmes and projects, and that the lessons learned from evaluation are effectively disseminated and applied in the design of UNIDO technical cooperation programmes.

51. The Programme requires specialized knowledge of modern quality assurance and evaluation techniques, particularly the logical framework approach and objectives-oriented project planning (OOPP). The Programme also requires a global coverage and linguistic skills in all major United Nations languages. Under the 10 per cent scenario, seven Professional-level staff would be maintained, which the Secretariat considers to be a critically low level, compared to 11 Professional-level posts in the 1996-1997 programme and budget. Under the 20 per cent scenario, staffing would be further reduced to six Professional-level posts. At this level, it would be very difficult to ensure the continued high quality and effective evaluation of UNIDO services.

VI. PERFORMANCE INDICATORS

52. The Board, in its decision IDB.17/Dec.2, called for the development of a set of criteria and indicators that would allow the future assessment of the implications and the monitoring of the implementation of the UNIDO reform process, including the performance of the Organization, in particular through the programme and budget.

53. Below, the Secretariat is proposing a first set of basic quantifiable performance indicators which are directly linked to the programme and budget. Further indicators, possibly including also indicators of a more qualitative nature, could be developed in consultation with Member States. The indicators presented in table 3 below would become a regular feature of future programme and budget documents thus allowing a monitoring and assessment of their development over time.

VII. SUMMARY AND OUTLOOK

54. The process leading to the presentation of the three different budget scenarios has involved intense consultations between the Director-General and Member States through both informal mechanisms and meetings of the policy-making organs. The Secretariat has played an

Table 3

Basic Performance Indicators, 1998-1999

	BUDGET SCENARIOS		
	10%	20%	30%
Share of Administration in total RB/OB resources			
• Excluding Buildings Management	15.7%	16.0%	18.0%
• Including Buildings Management	20.3%	20.7%	23.4%
Share of Policy Direction and Administration (incl. Buildings Management (in total RB/OB resources))	32.1%	32.7%	37.0%
Expected volume of technical cooperation (in US$ million)	227.8	211.6	197.2
Ratio of General Service posts to Professional posts	1.1 : 1	1.1 : 1	1.1 : 1
Share of field office resources in total RB/OB resources	10.4%*	10.1%	3.8%

* Note: This share reflects a significant degree of decentralization compared to the 1996-1997 biennium. In that biennium, around 60 per cent of regional programme management resources were allocated to Headquarters and some 40 per cent to the field. In the 10 per cent scenario for 1998-1999, close to 75 per cent of these resources would be in the field and only some 25 per cent at Headquarters.

active role in this dialogue and has provided information, advice and specific proposals to Member States.

55. In deciding on the overall budget level for the biennium 1998-1999, the Director-General urges Member States to take into consideration the results of the overall UNIDO reform process as well as a number of positive recent developments, in particular:

(a) The positive Danish Assessment of UNIDO issued in May 1997 which concluded that "there are clearly identifiable needs, and even increasingly so, for the kinds of services provided by UNIDO" and that "no other international organization has the same comprehensive experience, technical knowledge and multi-disciplinary expertise for combining and linking industrial technical cooperation services targeted at both the policy and strategy level, the institutional framework level and the enterprise level.";

(b) The decision of the Government of the United Kingdom announced in July 1997 to remain a member of UNIDO; in justifying this decision, the British Secretary of State for International Development stated that "UNIDO has made significant reforms. It has been down-sized substantially and refocused its activities into areas where it has a comparative advantage and which meet priority needs in developing countries and those in transition.";

(c) The encouraging long-term perspective for the mandate of UNIDO as put forward in the reform proposals of the Secretary-General;

(d) The rapidly increasing demand for the services of UNIDO as reflected in the growing pipeline of requests for assistance from all developing regions and countries with economies in transition.

56. In the assessment of the Director-General, the 10 per cent scenario, while not desirable, could be implemented through the discontinuation of certain activities in accordance with the Business Plan, and additional cost-cutting measures resulting from organizational streamlining and efficiency-enhancing measures. The 20 per cent scenario would imply a serious weakening of the Organization's substantive capacities and its field representation which would impair the future potential of UNIDO to effectively respond to the rising demand for its services.

57. The Director-General in particular advises strongly against any budgetary reductions exceeding 20 per cent. Such reductions, as previously pointed out in his document on the Future of UNIDO (IDB/S.7/2, para. 61), would clearly jeopardize the relevance of UNIDO. Moreover, it is the considered opinion of the Director-General that they could not be reconciled with the priorities established and activities as defined in the Business Plan.

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PRI ITY

COLLECTION

PROGRAMME AND BUDGETS, 1998-1999

Personnel and financial implications of the indicative budget reduction proposals*

Submitted by the Director-General

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* The present document has not been edited.

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Introduction

1. In the recent past, UNIDO has undergone a drastic staff reduction which has brought down staffing levels from approximately 1,350 in 1992 to 780 in 1996. The experience gained in implementing previous staff reduction programmes efficiently and effectively has been applied in the proposals presented in this document. In this context, the Director-General also appeals to Member States to accord highest priority to issues related to staff welfare and staff morale.

2. The proposed programme and budgets for 1998-1999 under each of the three indicative budget reduction levels (10, 20 and 30 per cent) have serious implications for the personnel of the Organization, as they include the abolition of a significant number of posts.

3. The implementation of certain other proposals contained in the budget will also have financial implications. For example, the transfer of posts from Headquarters to the field will involve travel and relocation costs for some Professional staff. It is expected that such costs can be absorbed under the budgetary allocations for 1998-1999, and no additional financial allocations will be sought from Member States.

4. The consequence of each of the budgetary proposals is that a number of staff will need to be separated from service with UNIDO, as there will be insufficient posts to maintain the current staffing establishment. There would, moreover, be little opportunity to implement staff reductions through normal attrition by way of retirement or resignation. This would, in any event, be inconsistent with the staff expertise requirements under the priorities established in the Business Plan.

5. The separation of staff has a substantial cost which, unlike in the previous staff reduction exercise, cannot be absorbed under existing budgets or within the financial resources currently available to the Organization. The present document discusses the personnel issues to be addressed under a staff separation programme, including the financial implications of such a programme. Information is provided on the costs of separating staff and on the costs related to the over-encumbency of posts at the beginning of the biennium. Proposals are made on budgetary and financial modalities to fund a staff separation programme.

6. The personnel and financial implications presented in the present document are extremely complex, in particular in respect of the modalities for funding a staff separation programme in the light of the three separate indicative budget reduction levels of 10, 20 and 30 per cent. In order to provide a clear and concise presentation of the issues, the paper is set out under the following chapters.

Chapter I. Personnel issues

7. This chapter describes the personnel issues, including information on the cost-effectiveness of a voluntary programme and on proposed incentives for a voluntary separation programme.

Chapter II. Cost of separations

8. This chapter presents the anticipated costs of separation under each of the indicative budget reduction scenarios of 10, 20 and 30 per cent.

Chapter III. Modalities for funding the staff separation programme

9. This chapter presents two alternative modalities for funding a separation indemnity reserve for consideration by Member States. The modalities discussed include supplementary budgets and transfer of unutilized balances combined with mandatory advances from Member States.

Chapter IV. Delayed implementation of budgetary reductions

10. This chapter suggests an alternative methodology for a phased implementation of the staff separation programme through the introduction of proposed budget reductions only as of the second year of the biennium.

I. PERSONNEL ISSUES—SEPARATION INDEMNITY

11. The magnitude of the staff separations resulting from the budgetary reductions requires special measures to be adopted by the Organization to facilitate an orderly and cost-effective staff separation programme. The programme must take account of the staff regulations and rules, as well as the effects that large-scale staff reductions have on the staff. UNIDO, as an employer within the United Nations system having already implemented two staff separation programmes, has an obligation towards its multicultural workforce to provide an appropriate framework within which staff reductions can be implemented. Based on the above considerations and in line with previous experience, the Director-General considers that a voluntary staff separation programme is the only viable means of reaching the required reduction in staffing levels within a minimum time-frame and should precede non-voluntary staff separation procedures. An essential

integral part of a voluntary staff separation programme would be that the Director-General reserves the right to deny applications for voluntary separation from staff members whose continued service is deemed necessary in the interests of the Organization.

12. As UNIDO has already undergone substantial staff reductions in recent years, a further staff reduction must be managed to ensure that the service of high performing staff members with the appropriate expertise is retained. This requires that the Director-General exercises his prerogative as chief administrative officer with respect to the extension and termination of staff appointments and that this prerogative is fully respected by Member States.

13. Although the Director-General will strive to keep a reasonable gender and geographical balance under both a voluntary and a forced staff reduction programme, there will be need for flexibility to secure the highest standards of efficiency, competence and integrity of the staff who are retained in service.

14. While this document basically discusses the financial aspects of a staff separation programme, there are other important elements to be considered for a smooth implementation. This includes aspects such as the establishment of outplacement and counseling services and the re-creation of an internal advisory body ensuring a fair and transparent process.

15. Member States should also take into account that the time factor plays a critical role in two ways: the time when required resources are made available to the Organization, and the time required for the actual implementation of staff reductions.

16. The proposed framework for staff separations does not compare favourably with separation packages approved by Member States in other specialized agencies and intergovernmental organizations, such as the World Bank. The proposed elements to be financed under a staff separation programme, therefore, constitute a minimum set of compensation modalities, incentives and services.

17. The cost elements of staff separations include:

(a) Termination indemnity, according to staff regulation 10.6(a), schedule IV, of the staff regulations and staff rule 110.07;

(b) In cases of agreed termination of permanent appointments, payment of termination indemnities increased by up to 50 per cent in accordance with staff regulation 10.6(b);

(c) Extension of this provision to the termination of fixed-term appointments, as was authorized by the General Conference for the staff reduction in 1995-1996 (GC.6/Dec.14);

(d) Salary and common staff costs incurred during the implementation period and periods of notice;

(e) The costs of an outplacement programme with a view to identifying employment opportunities for separating staff that constitutes an integral part of a staff separation programme;

(f) The costs associated with the administering of termination procedures, including appeals or complaints submitted by affected staff to the ILO Administrative Tribunal.

18. Where applicable, and at no additional cost to the Organization, utilization of the monetary value of (a), (b) and (c) above to finance payment towards pension fund and health insurance contributions during a period of leave without pay in order to protect acquired service credits in the pension and health insurance schemes or to finance a period of special leave with full pay or partial pay.

19. It is proposed in paragraph 17 (c) above that the financial arrangements relating to separation of staff holding fixed-term appointments include, as a special measure, additional termination indemnity payments up to 50 per cent. Given the provisions of staff regulation 10.6 (b), which allow increased termination indemnity payments of up to 50 per cent to holders of permanent appointments, the additional termination indemnity payment to holders of fixed-term appointments would again constitute an exceptional measure, requiring—as was the case at the sixth session of the General Conference—the approval of the General Conference, that would be essential given the magnitude of the staff separations required. Indeed, this element of the financial arrangements constitutes the only incentive for staff holding fixed-term appointments (63 per cent of the work force) to consider voluntary separation from service. Should the Organization not be in a position to offer this particular compensation element, a voluntary staff separation programme would effectively be applicable only to permanent staff members. This would reduce substantially the scope and impact of a voluntary staff separation programme and would result in the necessity to reach the required reduction in staffing levels through non-voluntary staff reductions.

20. The measures to be adopted should facilitate an orderly and cost-effective staff separation programme and

should be perceived by staff as fair and in line with conditions applicable in comparable organizations. The cost-effectiveness of a voluntary staff separation programme and the need to avoid non-voluntary staff separations to the extent possible is demonstrated by the following:

(a) The monetary value of an agreed termination, which includes the payment of an additional 50 per cent of termination indemnity for a Professional staff member with 10 years of service, irrespective of level and calculated on the basis of average within-grade steps for a staff member with dependants, amounts to 2.5 months of salary. For a General Service staff member, the monetary value ranges from 3.2 months of salary at grade G-2 to 3.5 months of salary at grade G-7;

(b) The staff regulations and rules, which constitute the labour law of the Organization, stipulate specific requirements and procedures to be followed before termination action is implemented. The relevant procedures require the review of the contractual status of individual staff members, competencies and performance on a comparative basis. Given the magnitude of staff separations required, such a review necessitates a corresponding time period during which the salaries of affected staff are payable and which, based on past experience, is in the order of at least six months, hence twice the estimated amount of an additional 50 per cent termination indemnity in cases of voluntary departure. In addition, the costs involved in terms of staff time to implement non-voluntary staff separations are substantial;

(c) Involuntary terminations, more often than not, lead to expensive and protracted litigation cases. Complaints are likely to originate from affected staff due to difficulties in identifying alternative employment opportunities in an economic environment of growing unemployment and due to losses in pension and social security benefits. Irrespective of the success of such complaints, the process of their legal review and consideration is extremely costly, as it absorbs staff time of the relevant services within the Secretariat which would otherwise be provided to other priority activities. This is a particularly unwarranted consequence given the fact that the Organization operates on reduced staff resources following the 1995-1996 budgetary and staff reduction of 25 per cent. Staff time spent by serving staff on internal committees, such as the Joint Appeals Board, is an additional cost element in terms of salary costs. While it is difficult to quantify this in financial terms, the fact remains that staff are diverted from their normal duties to ensure that the due process is observed in the implementation of non-voluntary separations.

21. Notwithstanding the limited incentives given to attract staff to accept voluntary separation, such incentives will ultimately prove to be less expensive to the Organization than the cost of protracted non-voluntary separations. It is reiterated that staff reductions through natural attrition would not be an appropriate solution, as mentioned in paragraph 4 above.

II. COST OF SEPARATIONS

Average cost of separations

22. The average cost of the separations under the 1996 staff reduction exercise was $100,000 per separated staff member, comprising an average $150,000 for Professional and $82,000 for General Service staff. However, the averages did not include salary costs incurred during the implementation period which, due to the circumstances prevailing at the time and the limited number of non-voluntary separations (12 per cent), could be absorbed from within the budgetary resources included in the 1996-1997 budget. In view of the reduced resource availability for 1998-1999, it will not be possible to absorb such additional costs within the 1998-1999 budget; and separate provision must be made for the full cost of separations, including salary costs during the implementation period, when the Organization will have more staff than posts budgeted. Based on the optimistic assumption that two thirds of the staff reductions could be effected within three months and the remaining one third within six months, the average cost of separation for Professional staff is estimated at $184,000 and General Service staff at $100,000. The average also includes provision for other separation-related costs as described in paragraph 17 (e) and (f). It is stressed that this average cost would increase in proportion with the time required for implementation.

Separation costs under the budget scenarios

23. The programme and budgets for 1998-1999 foresee the abolition of Professional and General Service posts for the 1998-1999 biennium under each of the three budget reduction scenarios. In view of the fact that some posts to be abolished are currently vacant, the number of staff separating from service with UNIDO will be fewer than the number of posts to be abolished.

24. The number of posts to be abolished and staff to be separated, together with the financial implications under each of the budget reduction scenarios, are presented below:

(a) 10 per cent budget reduction scenario

	Professional	General Service	Total
Total posts to be abolished	22	68	90
Vacant posts to be abolished	5	9	14
Encumbered posts to be abolished/staff to be separated	17	59	76
Average cost of separations	$184,000	$100,000	$118,400
Total cost of separations	$3.1 million	$5.9 million	$9.0 million

(b) 20 per cent budget reduction scenario

	Professional	General Service	Total
Total posts to be abolished	60	96	156
Vacant posts to be abolished	14	16	30
Encumbered posts to be abolished/staff to be separated	46	80	126
Average cost of separations	$184,000	$100,000	$131,800
Total cost of separations	$8.5 million	$8.0 million	$16.5 million

(c) 30 per cent budget reduction scenario

	Professional	General Service	Total
Total posts to be abolished	97	135	232
Vacant posts to be abolished	14	16	30
Encumbered posts to be abolished/staff to be separated	83	119	202
Average cost of separations	$184,000	$93,000 a/	$130,200
Total cost of separations	$15.3 million	$11.0 million	$26.3 million

a/ Lower average due to inclusion of 21 General Service field posts.

25. While the average cost for non-voluntary separations may initially be lower than the above estimates, the additional costs in terms of transition costs (staff costs without budgetary allocation), due process costs of implementing a non-voluntary separation, and possible *post facto* litigation costs will result in substantially higher real costs to the Organization.

III. MODALITIES FOR FUNDING A STAFF SEPARATION PROGRAMME

26. The financial estimates of a staff separation programme as outlined in the above paragraphs will require the replenishment of the separation indemnity reserve, which has a current level of $2,000,000 to the following levels:

(a)	Under the 10 per cent budget reduction scenario	$ 9.0 million
(b)	Under the 20 per cent budget reduction scenario	$16.5 million
(c)	Under the 30 per cent budget reduction scenario	$26.3 million

27. Under all three scenarios, there are two important considerations to be addressed:

(a) The requirement for Member States to provide budgetary approval for an allocation of funds for the restoration of the separation indemnity reserve;

(b) The modalities for the financing of the reserve with cash allocations.

28. In this context, the Secretariat draws attention to the report of the External Auditor on the interim accounts of UNIDO for the first year of the financial period 1996-1997 (IDB.18/3-PBC.13/3) which, in paragraph 21, states:

> "We stress that in case another staff reduction exercise becomes necessary, it may not presently be possible to fund a reserve for separation benefits, as the surplus for the 1994-1995 biennium is not backed up by cash resources. Therefore, Member States would be obliged to provide additional funds for that purpose."

29. The Organization does not have cash resources to implement the staff reduction programme. Such cash resources could come from the payment of outstanding assessed contributions by Member States. Unless cash resources are available to implement the staff separation programme, the process of reducing staffing to the approved budgeted levels could be delayed and the Organization would face a severe cash crisis in the first quarter of 1998. The extent of the cash shortfalls during 1998 under each of the scenarios is demonstrated in the graphs under annex I to the present document.

Alternative 1—Supplementary assessment on Member States

30. Under this alternative, the budgetary approval for the replenishment of the separation indemnity reserve would be through a supplementary budget for the 1998-1999 biennium. The financing of this supplementary budget would be through an assessment on Member States in accordance with the scale of assessments.

31. This alternative has the advantage of simplicity. The timely payment by Member States under this alternative would be essential to ensure that cash is available early in 1998 to implement the staff separation programme in as timely a manner as possible.

Alternative 2—Transfer of unutilized balances

32. The second alternative is more complex than the first alternative, but has the advantage of securing the budgetary resources without the need for a supplementary budget. This alternative is discussed below in terms of budgetary approval and financing of the separation indemnity reserve.

(a) Budgetary approval

33. Under alternative 2, the Secretariat recommends that the separation indemnity reserve be funded by transferring part of the unutilized balance of appropriation from the biennium 1994-1995 to the separation indemnity reserve. The budgetary surpluses arising from the unutilized balances of appropriations for the biennium 1994-1995 of $31,500,000 are shown in document IDB.18/4-PBC.13/4 (note 2(l)(ii)). Subject to the approval of the General Conference, part of this surplus could be transferred to the separation indemnity reserve to provide the budgetary authority to fund a staff separation programme. Under this alternative, Member States would be requested to approve the suspension of financial regulations 4.2(b) and 4.2(c) for part of the unutilized balances and to approve a transfer to the separation indemnity reserve account. The amount to be transferred will depend on the budget reduction level agreed by Member States.

34. Notwithstanding the possible approval by Member States of the funding modalities proposed in this chapter,

the Organization would still not have the required financial resources to finance the separation indemnity reserve. In other words, although the budgetary authority may be approved, cash is required to permit payments for staff separation indemnities to be made from the separation indemnity reserve. The possible source of the required cash is discussed in the following paragraphs.

(b) The financing of the separation indemnity reserve

35. As stated above, the implementation of the staff reduction programme requires cash. The most obvious source of the cash would be from the payment by Member States of outstanding assessed contributions. For instance, payment by the United States of America of only one half of its outstanding contribution alone would provide sufficient cash to finance a staff separation programme even under a 30 per cent budget reduction. There are also significant levels of outstanding contributions from other Member States. However, unless the Organization is successful in recovering outstanding assessed contributions before December 1997 at levels sufficient to finance the separation indemnity reserve, an alternative course of financing must be considered.

36. It would appear that the only feasible proposition, in the absence of cash from late payment of assessed contributions, is for Member States to make financial advances by way of loans to the Organization, which would be repaid as and when such assessed contributions are paid. Such advances, which could be based on the scale of assessments, would be presented in the financial statements as liabilities to Member States and would not be considered as permanent contributions to the Organization.

37. The level of advance required to be made by Member States will depend on the level of the separation indemnity reserve, which is in turn dependent on the budgetary reductions decided upon by Member States.

IV. DELAYED IMPLEMENTATION OF BUDGETARY REDUCTIONS

38. An alternative methodology to achieve the staff reduction levels demanded by the budget reductions is discussed under this chapter.

39. The process of implementation of the staff reduction programme will cause severe disruption to the work of the Organization during a period in which the implementation of the programme of work and the Business Plan should be of paramount importance. The alternative methodology would call for the staff reduction programme to be phased throughout the first year of the biennium. This would have the advantage of a longer period of transition to lower staffing levels and consequently less disruption to the work of the Organization.

40. This methodology would not in itself reduce the overall cost of staff separation. However, if applied in combination with alternative 2 described in paragraphs 32 to 37, it may eliminate the need for additional mandatory assessments. This is because of the possibility of an improvement in the payment of late assessed contributions during 1998, which could finance the staff separation programme.

41. Delayed implementation of budgetary reductions would provide for the abolition of posts to take place in the second year of the 1998-1999 biennium.

V. SUMMARY

42. The personnel and financial issues can be summarized as follows:

(a) The number of staff to be separated is dependent on the level of budget reductions decided upon by Member States;

(b) The Organization should introduce a cost-efficient programme, including incentives to staff, to ensure the largest possible number of voluntary separations;

(c) The Organization does not presently have the financial resources to implement a staff separation programme;

(d) The separation indemnity reserve could be funded through (i) a supplementary budget assessment on Member States or (ii) the transfer of unutilized balances from the 1994-1995 biennium;

(e) Under (d) (ii) above, in the absence of a significant payment of late assessed contributions, the financing of the separation indemnity reserve would be through mandatory advances by Member States;

(f) Member States may consider a delayed implementation of budgetary reduction;

(g) The time factor of implementation is essential to reduce the likelihood of a financial crisis in the next biennium.

VI. ACTION REQUIRED OF THE COMMITTEE

43. For the reasons outlined in the present document, it is suggested that the Committee recommend to the Board the adoption of the following draft decision:

Alternative 1

"The Industrial Development Board:

"(a) Recommends to the General Conference the approval of a supplementary budget for the biennium 1998-1999 in the amount of [amount to be determined] for the purpose of funding the separation indemnity reserve;

"(b) Also recommends to the General Conference the approval of the financial arrangement outlined in document IDB.18/15/5-PBC.13/14/5 relating to voluntary separation of staff, which may include the special arrangements to holders of fixed-term appointments to be financed from the separation indemnity reserve;

"(c) Requests the Director-General to implement a staff separation programme in accordance with the staff rules and regulations to reduce the staffing establishment to the levels approved in the 1998-1999 programme and budgets."

Alternative 2

"The Industrial Development Board:

"(a) Recommends to the General Conference the suspension of financial regulations 4.2(b) and 4.2(c) with respect to the unutilized balance of appropriations for the 1994-1995 biennium, as reported in document IDB.18/4-PBC.13/4, in the amount of [amount to be determined] for the purpose of funding the separation indemnity reserve;

"(b) Also recommends to the General Conference the approval of a mandatory assessment on Member States of [amount to be determined] as a temporary advance to the Organization, to be repaid as late payments of assessed contributions for prior bienniums are received;

"(c) Also recommends to the General Conference the approval of the financial arrangement outlined in document IDB.18/15/5-PBC.13/14/5 relating to voluntary separation of staff, which may include the special arrangements to holders of fixed-term appointments to be financed from the separation indemnity reserve;

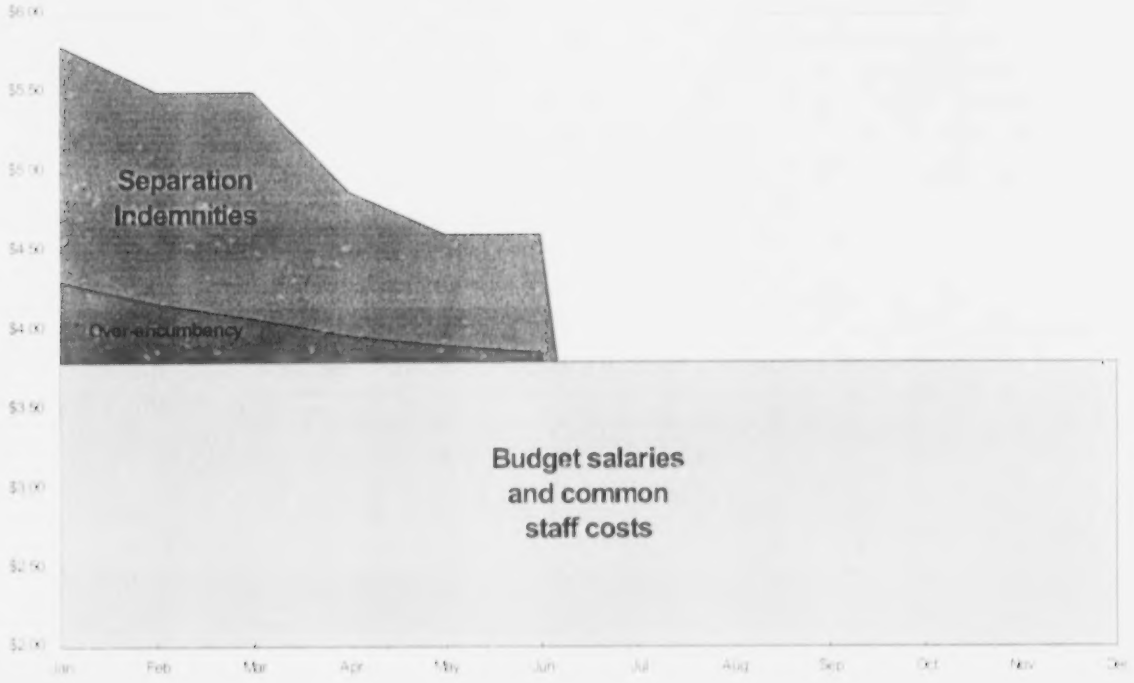
"(d) Requests the Director-General to implement a staff separation programme in accordance with the staff rules and regulations to reduce the staffing establishment to the levels approved in the 1998-1999 programme and budgets."

Annex

Staff Separation Programme

Excess of expenditure over budget - 1998

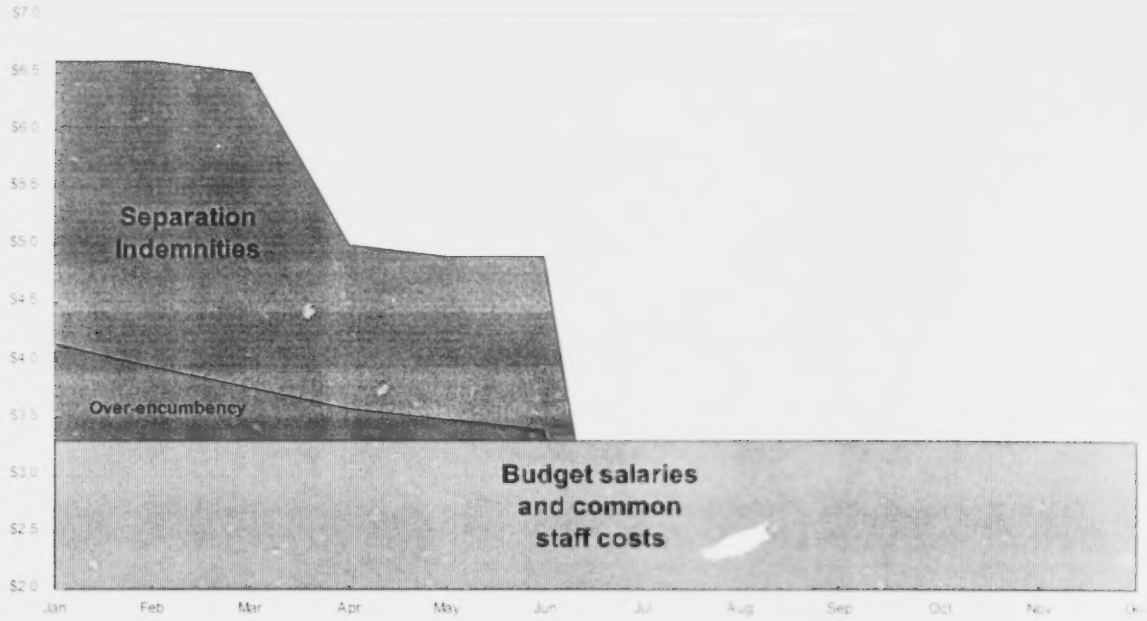
Figure 1. 10% budget reduction



Staff Separation Programme

Excess of expenditure over budget - 1998

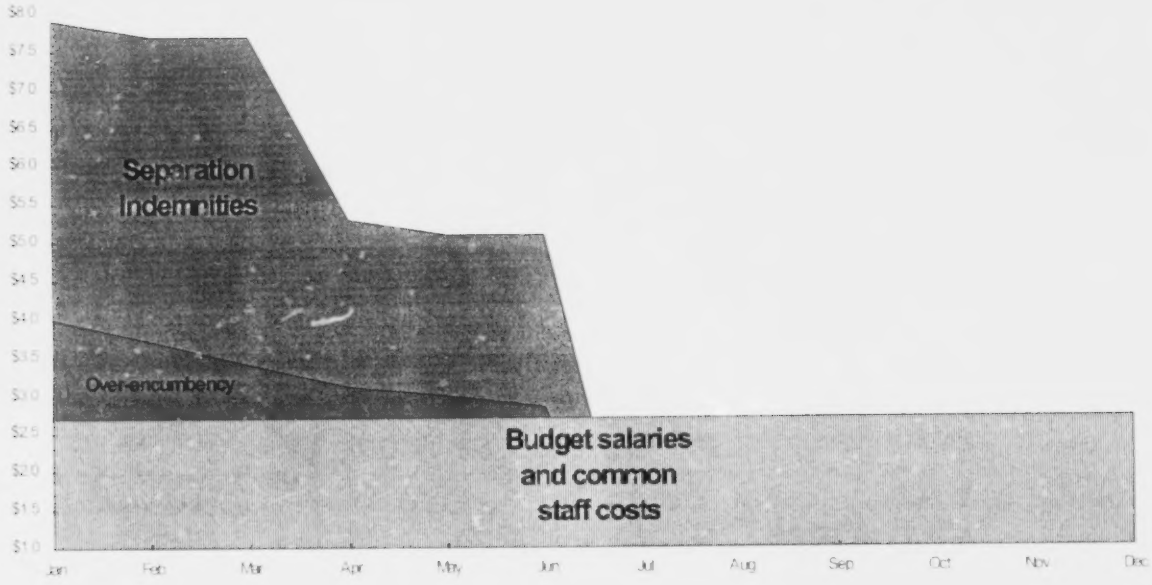
Figure 2. 20% budget reduction



Staff Separation Programme

Excess of cash requirements over budget - 1998

Figure 3. 30% budget reduction



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COLLECTION

PROGRAMME AND BUDGETS, 1998-1999

Personnel and financial implications of the proposed budget reductions

Submitted by the Director-General

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Introduction

1. The Secretariat initially presented the personnel and financial implications of the indicative budget reduction proposals in documents IDB.18/15/5-PBC.13/14/5 and IDB.17/CRP.8. The purpose of the present paper is to further elaborate on the personnel-related considerations and financial implications of the revised regular budget proposals submitted to the resumed session of the Programme and Budget Committee under document IDB.18/15/6-PBC.13/14/6. Member States are requested in the present document to authorize the financial resources to ensure that separation of staff can be implemented on a timely basis and in a fair and responsible manner. The Director-General appeals to Member States to accord highest priority to issues related to staff welfare and staff morale.

2. The proposed programme and budgets for 1998-1999, which foresee a reduction of 19.5 per cent in the regular budget as compared with the 1996-1997 biennium, has serious implications for the personnel of the Organization. The budget proposals, which respond to the Business Plan and include measures to streamline organizational structures, discontinue activities and achieve budget reductions in most programmes of the Organization, include the abolition of a significant number of posts.

3. As a consequence of the reduced number of posts foreseen in the budget proposals, a large number of staff will need to be separated from service with UNIDO, as there will be insufficient posts to accommodate the current staffing establishment. There would, moreover, be little opportunity to implement staff reductions through normal attrition by way of retirement or resignation. This would, in any event, be inconsistent with the staff expertise requirements under the priorities established in the Business Plan. The Secretariat will, therefore, have to adopt special measures in order to implement an orderly and cost-effective separation programme that would minimize, to the extent possible, the negative effect of downsizing.

4. The separation of staff has a substantial cost which, unlike in the previous staff reduction exercise, cannot be absorbed under existing budgets or within the financial resources currently available to the Organization. The present document discusses the personnel issues to be addressed under a staff separation programme, including the financial implications of such a programme. Information is provided on the costs of separating staff and on the costs related to the over-encumbency of posts at the beginning of the biennium. Proposals are made on budgetary and financial modalities to fund a staff separation programme.

5. The personnel and financial implications of the reduced budget proposals are very complex. In order to provide a clear and concise presentation of the issues, the paper is set out as follows:

Chapter I. Personnel issues

6. This chapter describes the personnel issues, including information on the cost-effectiveness of a voluntary staff reduction programme and on proposed incentives in that regard.

Chapter II. Cost of separations

7. This chapter presents the anticipated cost of separations demanded by the proposed budget reductions.

Chapter III. Modalities for funding the staff separation programme

8. This chapter presents two alternative modalities for funding a separation indemnity reserve for consideration by Member States. The modalities discussed include supplementary budgets and/or the transfer of unutilized balances combined with mandatory advances from Member States or external borrowing.

I. PERSONNEL ISSUES—STAFF SEPARATION PROGRAMME

9. It is proposed that staff separations be implemented in two phases. The first phase would consist of a voluntary separation programme and the second of non-voluntary separations. The reasons for, and advantages of, a voluntary separation programme and all relevant considerations are explained below.

10. UNIDO, as an employer within the United Nations system, has an obligation towards its multicultural workforce to provide an appropriate framework within which staff reductions can be implemented. Such a framework must provide for adherence to the staff regulations and rules and legally required procedures and take account of cost-efficiency considerations. Failure to do so entails a high risk of affecting seriously the operation of the Organization and increasing the related costs. It is, therefore, incumbent upon the Secretariat to bring to the attention of Member States the issues on the basis of which the Director-General considers that a voluntary separation programme is the only viable means of reaching the required reduction in staffing levels within a minimum time-frame and predictable costs. A voluntary staff separation programme thus should precede non-voluntary staff separation procedures.

11. As UNIDO has undergone substantial staff reductions in recent years, a further staff reduction must be managed to ensure that the service of high performing staff members with the required expertise is retained. An essential and integral part of a voluntary staff separation programme would, therefore, be that the Director-General reserves the right to deny applications for voluntary separation from staff members whose continued service is deemed necessary in the interest of the Organization.

A. The time factor—overencumbency costs

12. The Organization has experienced two staff separation programmes in the recent past. Based on this experience, the time factor required for the implementation of non-voluntary staff separation procedures is twice that required for a voluntary separation programme for the reasons elaborated below. This means that the corporate energy that has to be spent on downsizing is double and the process itself is prolonged at the expense of staff morale and productivity. Furthermore, costs of overencumbency are directly related to the time factor as staff remain on the payroll during the period of implementation of staff reduction procedures. Specifically, the overencumbency costs for 123 staff members (see table 1) under a voluntary separation programme are estimated at approximately $2.4 million. Overencumbency costs for the same number of staff under non-voluntary separation procedures could be expected to exceed $5 million due to the unavoidable extended period for the staff separation process.

B. Legal considerations

13. Where the necessities of the service require abolition of a post or reduction of staff, the fixed-term contracts of staff members may not automatically be allowed to expire. Jurisprudence of the Administrative Tribunal of the International Labour Organization (ILOAT) has established that a reason should be given to a fixed-term contract holder whose appointment is not extended. The decision not to extend the appointment may be subject to the examination of the tribunal. While the contractual status of fixed-term staff is quite distinct from that of permanent staff, staff members holding fixed-term appointments will claim the right to be considered for redeployment against available vacant posts. The Organization, therefore, has to show that it has made reasonable efforts in good faith to examine the possibilities of redeployment of the staff member. This obligation applies even if the number of vacant posts is low. It is relevant to recall that the General Assembly, with resolution 37/126 (IV) of 17 December 1982, has provided that staff members on fixed-term appointments upon completion of five years of continuing good service shall be given every reasonable consideration for a career appointment. Based on the above considerations in the 1996 non-voluntary phase of the staff reduction programme, the criteria and procedures for staff reduction were applied in an equitable manner to staff members holding fixed-term contracts whose posts were abolished, irrespective of the fact that the expiry of some of the contracts coincided with the implementation of the staff reduction programme. Indeed, equitable treatment of staff, especially in situations of reduction-in-force, is an additional important principle which the Tribunal is likely to examine. That is, separation modalities in situations of abolition of posts and reduction-in-force cannot exclusively be determined on the basis of expiry dates of contracts.

14. Furthermore, UNIDO staff rule 110.02 refers to preferential retention of permanent over fixed-term staff under certain conditions: namely when there are suitable posts in which their services can be effectively utilized and provided that due regard is paid in all cases to relative competence, integrity and length of service. The staff rule refers to suitable posts, i.e. such posts may be vacant or encumbered. The preferential retention is, therefore, subject to certain conditions being fulfilled which requires that the facts relating to relative merits be examined with due attention and established clearly. Thus, in order to determine how the case of a permanent staff member compares with that of a fixed-term staff member, a comparative review has to take place following which a reasoned decision (preventing a successful complaint at ILOAT) can be made on which staff member should be retained in service and which staff member should be separated from service. Non-voluntary staff reduction procedures require that this review be carried out, which in turn directly affects the time factor as mentioned in paragraph 12 above.

C. Litigation and related costs

15. Litigation costs that could result from a reduction-in-force exercise cannot be determined in advance and in that sense constitute an open-ended cost factor. As indicated in document IDB.17/CRP.8, the need to avoid non-voluntary separations to the extent possible is supported by the fact that they, more often than not, lead to expensive and protracted litigation cases. Complaints are likely to originate from affected staff due to difficulties in identifying alternative employment possibilities in an economic environment of growing unemployment and due to losses in pension and health insurance benefits. Significant litigation and related costs should thus be expected from a reduction-in-force exercise. However, a voluntary separation scheme which provides for an adequate level of incentives allows an orderly and phased approach in which the scope for a protracted implementation process, litigation and potentially higher costs

is considerably reduced. The magnitude of the reductions is a crucial element in this respect. To illustrate the point, the following information is provided.

16. According to the provisions of the UNIDO Staff Regulations and Rules and Article VII of the ILOAT Statute, an application to the Tribunal shall not be receivable unless the person concerned has exhausted such other means of resisting the decision contested as are open to him or her under the applicable staff regulations of the employing organization. The UNIDO Staff Regulations and Rules—like the regulations and rules of other organizations—provide for an internal appeals mechanism. The Joint Appeals Board (JAB) constitutes this mechanism. Thus, for a complaint to be receivable by ILOAT, the staff member or former staff member must follow all the procedures relating to the consideration of the case by JAB and the latter must have completed its review of the case and communicated its opinion to the Director-General. This procedure is required unless the Director-General has agreed to a direct submission of the complaint to ILOAT. The consideration of such cases by JAB is one of the cost factors per individual case that has to be taken into consideration.

17. Litigation costs have two components:

(a) The costs associated with the examination and consideration of each case by the (internal) Joint Appeals Board and, thereafter, by ILOAT. These are made up of costs for the preparation of written submissions and replies to appeals, complaints and rejoinders submitted by the person concerned, staff time spent at JAB meetings and other costs related to a formal legal process, including UNIDO's share of ILOAT operating costs. This cost component is estimated at $40,000 per case;

(b) The second component that cannot be estimated is the compensation that may be awarded by JAB or ILOAT, if the complaint is successful. For example, JAB may recommend or ILOAT may order the payment of compensation and of legal costs incurred by the complainant or, if it is found appropriate, the reinstatement of the complainant to duty.

D. Conclusions

18. On the basis of the above considerations, it is proposed that staff separations be implemented in two phases comprising a voluntary and a non-voluntary phase. As mentioned in document IDB.18/15/5-PBC.13/14/5, the proposed elements to be financed under the staff separation programme constitute a minimum set of compensation modalities, incentives and services. The cost elements of staff separations include:

(a) Termination indemnity, according to staff regulation 10.6(a), schedule IV, of the staff regulations and staff rule 110.07;

(b) In cases of agreed termination of permanent appointments, payment of termination indemnities increased by up to 50 per cent in accordance with staff regulation 10.6(b);

(c) Extension of this provision to the termination of fixed-term appointments under the voluntary phase of staff separations, as was authorized by the General Conference for the staff reduction in 1995-1996 (GC.6 Dec.14);

(d) Salary and common staff costs incurred during the implementation period and periods of notice;

(e) The costs of an outplacement programme with a view to assisting separating staff with alternative employment opportunities;

(f) The costs associated with administering termination procedures, including appeals to the Joint Appeals Board or complaints submitted by affected staff to the ILO Administrative Tribunal.

19. PBC conclusion 97/4 calls, *inter alia*, for a judicious mix of voluntary separations and expiration of fixed-term contracts no longer required in view of the discontinuance of activities in accordance with the Business Plan and in view of the major restructuring of UNIDO, which would result therefrom. The Secretariat intends to adopt measures ensuring that separation and compensation modalities will be consistent with the contractual status and expectancy of further employment of the individual concerned. Specifically, fixed-term appointments may be allowed to expire, where appropriate. Furthermore, agreed terminations with an increased indemnity will not be offered in cases of staff members on fixed-term appointments who, by the end of their current term, will have served for a total period not exceeding five years.

20. Voluntary staff separation programmes have also been implemented by other organizations of the United Nations common system. Such programmes were usually, but not exclusively, occasioned by budget reductions. It may be noted that other Organizations of the common system and of the World Bank group have offered their staff separation modalities that are more favourable than those contained in paragraph 18 above. For example, in the case of two Geneva-based organizations, post adjustment was included in the termination indemnity for Professional staff. Post adjustment is a cost-of-living element received by such staff while in service. However,

the compensation received by UNIDO staff in the Professional and higher categories (termination indemnity) does not include post adjustment. In addition, the payment of increased termination indemnity has been extended to fixed-term staff. For certain age groups and under certain conditions, payments of pension and health insurance contributions were also made by other agencies.

21. The re-employment of staff who separate from UNIDO is regulated by policies developed by the Vienna-based organizations of the United Nations common system, which do not permit indemnization from one organization and re-employment and payment of emoluments from another.

II. COST OF SEPARATIONS

22. The programme and budget proposals for 1998-1999, which outline the programme of work and corresponding financial estimates for the biennium, do not include provision for the cost of separations. Staff separation costs are a consequence of a reduced budget for 1998-1999, but do not form part of the budget as they are not related to the implementation of the programme of work for the biennium. Therefore, separate provision must be made for the full cost of separations, including salary costs through over-encumbency of posts during the implementation period, when the Organization will have more staff than posts budgeted. Based on the optimistic assumption that two-thirds of the staff reductions could be effected within three months and the remaining one-third within six months, the average cost of separation for Professional staff is estimated at $184,000 and General Service staff at $100,000. The average also includes provision for other separation-related costs as described in paragraph 18. The assumptions on the expected implementation period during which separations will be effected is dependent on an early decision by Member States on financing modalities and a significant number of voluntary separations being achieved. The average cost of separation would increase if the implementation period was longer than assumed, which would be the case if the Organization had to invoke a significant number of non-voluntary separations.

23. The programme and budget proposals for 1998-1999 foresee the abolition of 51 Professional and 94 General Service posts. In view of the fact that some of the posts that are to be abolished are currently vacant, the number of staff separating from service will be fewer than the number of posts to be abolished.

24. The policy of restricted recruitment followed by the Secretariat during the past 12 months, which has led to a number of posts remaining vacant, will result in the total cost of separations being significantly less than might have been expected from the reduction of posts in the budget.

25. The number of posts to be abolished and staff to be separated, together with the average and total cost of separations are presented in table 1 below:

Table 1

Number of posts to be abolished

	Pro-fessional	General Service	Total
Total posts to be abolished	51	94	145
Vacant posts to be abolished	8	14	22
Encumbered posts to be abolished/ staff to be separated	43	80	123
Average cost of separations	$184,000	$100,000	$129,300
Total cost of separations	$7.9 million	$8.0 million	$15.9 million

26. The above costs are based on the assumption of voluntary separations. While the average cost for non-voluntary measures may be initially lower due to fewer incentives and separation indemnity payments, the additional costs made up of longer transition costs (over-encumbency costs without budgetary allocation), due process costs of implementing non-voluntary separations and likely *post facto* litigation costs would result in substantially higher real costs for the Organization.

III. MODALITIES FOR FUNDING A STAFF SEPARATION PROGRAMME

27. The financial estimates of a staff separation programme as outlined in the above paragraphs will require the replenishment of the separation indemnity reserve as presented in table 2 below.

28. Two important considerations must be addressed:

(a) Member States must provide budgetary approval for an allocation of funds for the restoration of the separation indemnity reserve to provide for the costs of staff separations;

Table 2

Financial estimates of staff separation

	$ million
Current level of the separation indemnity reserve	2
Replenishment required	13.9
Cost of separations	15.9

(b) A budgetary allocation of funds for the restoration of the separation indemnity reserve must be matched by cash.

29. In this context, the Secretariat draws attention to the report of the External Auditor on the interim accounts of UNIDO for the first year of the financial period 1996-1997 (IDB.18/3-PBC.13/3) which, in paragraph 21, states:

> "We stress that in case another staff reduction exercise becomes necessary, it may not presently be possible to fund a reserve for separation benefits, as the surplus for the 1994-1995 biennium is not backed up by cash resources. Therefore, Member States would be obliged to provide additional funds for that purpose."

30. The Organization does not have the cash resources to implement the staff reduction programme. Unless cash resources are made available, the process of reducing staffing to approved budget levels would be delayed. Such delays could undermine the programmatic implementation of the new budget and would lead to an unprecedented cash crisis during the first half of 1998. The inability of the Organization to separate staff and pay separation indemnities would result in many staff continuing to draw their salaries for which no budget resources would be available. The resulting cash flow imbalances and drain on cash balances could lead to the Organization becoming insolvent and unable to meet the payroll and other financial obligations. On the other hand, separation of staff without adherence to the provisions of the staff regulations and rules, and required procedures could make the Organization liable for substantial claims for damages by affected staff members.

31. The Secretariat proposes two alternative approaches to permit the funding (budgetary authority) and financing (cash) of the staff separations necessary to achieve a reduction in staffing to the budgeted number of posts for 1998-1999.

Alternative 1

Alternative 1 foresees:

	Requirement	Source
(a)	Budgetary authority (funding):	Supplementary budget for staff separations
(b)	Cash (financing):	Assessment on Member States

32. Under this alternative, budgetary funding for the separation indemnity reserve increase of $13.9 million would be by way of a supplementary budget. The financing of a supplementary budget would be through an assessment on Member States in accordance with the scale of assessments.

33. The assessed contributions to be paid by Member States in 1998 would, therefore, comprise (a) the supplementary budget for staff separations and (b) the 1998 portion of the 1998-1999 budget. As can be seen from table 3 below, the overall level of assessed contributions for 1998 would thus be similar to that of 1997:

Table 3

Proposed assessment on Member States, 1998
(In millions of US dollars)

	Budget assessed on Member States	Supplementary budget for staff separations	Total assessment for year
1997 (less Australia)	77.2	-	77.2
1998	65.5	13.9	79.4
Increase/ (decrease)	(11.7)	13.9	2.2

34. This alternative has the advantage of simplicity and recognizes the direct causal relationship between a substantially reduced budget and the cost of achieving such reductions.

35. Timely payments by Member States under this alternative would be essential to ensure that cash is available early in 1998 to implement staff separations in as timely a manner as possible.

Alternative 2

Alternative 2 foresees:

	Requirement	Source
(a)	Budgetary authority (funding):	Unutilized appropriations from 1994-1995
(b)	Cash (financing):	Advances from Member States or external borrowing

A. Budgetary approval

36. Under alternative 2, the separation indemnity reserve would be funded by transferring part of the unutilized balance of appropriations from the biennium 1994-1995 to the separation indemnity reserve. The budgetary surpluses arising from the unutilized balances of appropriations for the biennium 1994-1995 of $31,500,000 are shown in document IDB.18/4-PBC.13/4 (note 2(i)(ii)). Subject to the approval of the General Conference, part of this surplus could be transferred to the separation indemnity reserve to provide the budgetary authority to fund a staff separation programme. Under this alternative, Member States would be requested to approve the suspension of financial regulations 4.2(b) and 4.2(c) for part of the unutilized balances and to approve a transfer to the separation indemnity reserve account.

37. Notwithstanding the possible approval by Member States of the funding modalities proposed in this chapter, the Organization would still not have the required financial resources to finance the separation indemnity reserve. In other words, although the budgetary authority may be given, cash is required to permit payments for staff separation indemnities to be made from the separation indemnity reserve. The possible source of the required cash is discussed in the following paragraphs.

B. Financing of staff separations

38. As stated above, the implementation of the staff reduction programme requires cash. The most obvious source of the cash would be from the payment by Member States of outstanding assessed contributions. For instance, payment by the United States of America of only one quarter of its outstanding contribution alone would provide sufficient cash to finance a staff separation programme. There are also significant levels of outstanding contributions from other Member States. However, unless the Organization is successful in recovering outstanding assessed contributions before December 1997 at levels sufficient to finance the separation indemnity reserve, an alternative course of financing must be identified. Two modalities of financing could be considered.

Advances by Member States

39. In the absence of cash from late payment of assessed contributions (paragraph 38 above), Member States could agree to mandatory advances by way of loans to the Organization, which would be repaid as and when such assessed contributions are paid. Such advances, which could be based on the scale of assessments, would be presented in the financial statements as liabilities to Member States and would not be considered as permanent contributions to the Organization.

External borrowing

40. In the absence of cash from late payments of assessed contributions (paragraph 38 above), or mandatory advances by way of loans from Member States (paragraph 39 above), the Organization would need to seek voluntary advances by Member States or external financing from banks or other financial institutions to finance staff separations.

41. As the Constitution and Financial Regulations of UNIDO do not exclude the possibility of borrowing funds from external institutions, Member States may wish to approve this option. The level of borrowing would be on an "as needed" basis through a credit line and would, in any event, be restricted to a maximum level of $13.9 million, being the amount estimated for the replenishment of the separation indemnity reserve. The cost of borrowing would be met from the separation indemnity reserve. The cash drawn down under the credit lines would be repaid as and when late assessed contributions are paid.

IV. SUMMARY

42. The issues can be summarized as follows:

(a) A significant reduction in staff is an inevitable consequence of the reduced budgetary levels expected to be approved by Member States for 1998-1999;

(b) The Organization has legal and financial obligations to its staff who will separate from the Organization as a result of budgetary reductions;

(c) A staff separation programme consisting of a voluntary phase and, thereafter, non-voluntary separations is a cost-effective means to implement the

required number of staff separations; it reduces the scope for a protracted implementation process, litigation and unpredictable costs resulting therefrom;

(d) Member States must provide the budgetary authority for the cost of staff separations;

(e) The Organization does not presently have the cash to implement a staff separation programme and a financing modality must be identified;

(f) The time factor of separation is essential to reduce the likelihood of a financial crisis in 1998.

V. ACTION REQUIRED OF THE COMMITTEE

43. The Director-General urges the Committee to take the required decisions to address the personnel and financial issues arising from Member States' decisions to impose significant reduction in the regular budget.

44. The Committee may wish to consider adopting one of the following draft decisions:

Alternative 1

"The Industrial Development Board:

"(a) Takes note of document IDB.18/15/5/Rev.1-PBC.13/14/5/Rev.1 on the personnel and financial implications of the budget reductions proposed for the 1998-1999 biennium;

"(b) Recommends to the General Conference the approval of a supplementary budget in the amount of $13.9 million for the purpose of funding the separation indemnity reserve to meet the costs of staff separation;

"(c) Also recommends to the General Conference the approval of the financial arrangement outlined in document IDB.18/15/5/Rev.1-PBC.13/14/5/Rev.1 relating to voluntary separation of staff, which may include special arrangements to holders of fixed-term appointments, to be financed from the separation indemnity reserve;

"(d) Requests the Director-General to implement a staff separation programme in accordance with the staff rules and regulations to reduce the staffing establishment to the levels approved in the 1998-1999 programme and budgets."

Alternative 2

"(a) Takes note of document IDB.18/15/5/Rev.1-PBC.13/14/5/Rev.1 on the personnel and financial implications of the budget reductions proposed for the 1998-1999 biennium;

"(b) Recommends to the General Conference the suspension of financial regulations 4.2(b) and 4.2(c) with respect to the unutilized balance of appropriations for the 1994-1995 biennium, as reported in document IDB.18/4-PBC.13/4, in the amount of $13.9 million for the purpose of funding the separation indemnity reserve to meet the cost of staff separations;

"(c) Also recommends to the General Conference the approval of a mandatory assessment on Member States of $13.9 million as a temporary advance to the Organization, to be repaid as late payments of assessed contributions for prior bienniums are received;

or

"(c) Also recommends to the General Conference that the Director-General be authorized to borrow from Member States or external institutions up to a maximum of $13.9 million to be repaid as late payments of assessed contributions for prior bienniums are received;

"(d) Also recommends to the General Conference the approval of the financial arrangement outlined in document IDB.18/15/5/Rev.1-PBC.13/14/5/Rev.1 relating to voluntary separation of staff, which may include the special arrangements to holders of fixed-term appointments, to be financed from the separation indemnity reserve;

"(e) Requests the Director-General to implement a staff separation programme in accordance with the staff rules and regulations to reduce the staffing establishment to the levels approved in the 1998-1999 programme and budgets."